

# CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Severn Bancorp, Inc. and Severn Savings Bank, FSB

Point of Contact:	Stephen W. Lilly	RSSD: (For Bank Holding Companies)	3831465
UST Sequence Number:	71	Docket Number: (For Thrift Holding Companies)	H1799
CPP/CDCI Funds Received:	23,393,000	FDIC Certificate Number: (For Depository Institutions)	32367
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	N/A	City:	Annapolis
Date Repaid <sup>1</sup> :	N/A	State:	Maryland

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDICI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDICI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDICI investment was deployed or how many CPP/CDICI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDICI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDICI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Severn Savings Bank, FSB ("Severn") was able to maintain lending programs primarily to qualified residential borrowers and small businesses in part from the higher levels of capital from the CPP. Severn originated and funded approximately \$52 million of mortgage loans during 2011.

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☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Severn's loan portfolio declined primarily due to the economic recession from approximately \$782 million at December 31, 2010 to approximately \$697 million at December 31, 2011. However, Severn did actively lend in 2011 primarily to qualified residential borrowers and small businesses.

☒ **Increase securities purchased (ABS, MBS, etc.).**

Severn was able to increase its investment in US Treasuries by approximately \$13 million in 2011 in part due to funds received from the CPP in 2008.

☐ **Make other investments.**

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☒ **Increase reserves for non-performing assets.**

Severn increased its loan loss reserves by approximately \$5 million in 2011 as a result of the continued effects of the economic recession. The increased capital received from the CPP in 2008 helped offset the effect of the increase in loan loss reserves in 2011.

☐ **Reduce borrowings.**

☒ **Increase charge-offs.**

As a result of the continued effects of the economic recession, Severn had loan charge-offs of approximately \$9 million during the year ended December 31, 2011. The increased capital received from the CPP in 2008 helped offset the effect of the loan charge-offs incurred in 2011.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Severn's capital position was not impacted from the CPP in 2011; however, Severn's capital position was improved when it received the CPP funding in 2008.

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Severn was able to maintain its "well capitalized" capital status by participating in the CPP in 2008. By doing this, Severn's capital exceeded regulatory requirements for a "well capitalized" bank throughout 2011 and was able to avoid any need to raise additional capital. Severn's Tier 1 capital ratio was 17.1% at December 31, 2011.

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### **What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

Due in part to the increased capital from participating in the CPP, Severn was able to continue to expand its business relationship banking department by increasing business products and services. In addition, Severn was able to increase its offerings to business and consumers, including additional commercial lending products, and an expanded line of consumer deposit products. Where appropriate, Severn was also able to continue to work with distressed borrowers and modify existing loan terms to assist borrowers who were no longer capable of paying their loans, but who demonstrated the desire and capability to pay under modified loan terms.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

None noted.